

economic trends

January 2014

Alberta economy posts solid finish to 2013

Alberta has momentum heading into 2014 after a strong finish to 2013. Indicators from the business sector that started last year off on the weak side have improved markedly in more recent months. In the household sector, year-over-year growth in employment and housing starts has accelerated since mid-2013.

This month's *inFocus* discusses how Alberta's economy fared in 2013.

Alberta Household Sector

Job growth diverges from rest of Canada
Alberta's labour market has continued to perform very well, despite December's dip in jobs. In the second half of 2013, Alberta added on average 5,900 jobs per month compared with a decline of 2,500 in the rest of Canada. As a result, year-over-year job growth in Alberta has diverged sharply from the rest of Canada (Figure 1). One marked change has been the shift to service sector job creation in 2013 after the goods sector led in 2012. Strong job creation continues to be closely matched with a large inflow of workers,

Key Indicators

All indicators seasonally adjusted unless otherwise indicated

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	December	2,237	+3.1%
Unemployment Rate	December	4.8%	+0.3 p.p.
CPI Inflation	December	2.1%	+2.1 p.p.
Retail Sales	November	\$6.3B	+6.8%
Housing Starts (annualized)	December	36,220	+18.8%
Rigs Drilling (unadjusted)	January	392	+6.7%
Manufacturing Shipments	November	\$6.4B	+7.1%
Exports (unadjusted)	November	\$8.5B	+10.7%

Source: Statistics Canada, CAODC, CMHC. p.p. = percentage points

keeping the labour market balanced and the unemployment rate between 4.3% and 4.8% since July.

Inflation edges higher

For the first time since July, the consumer price index (CPI) rose by over 2% in December, driven higher mainly by gasoline prices. Aside from energy prices, the CPI index continued to increase at a moderate pace, though pressure from rents

and owned accommodation costs have been increasing. Inflation continues to be outmatch by earnings growth. Average weekly earnings (+3.2% year-to-date through November), have risen by more than double the rate of inflation.

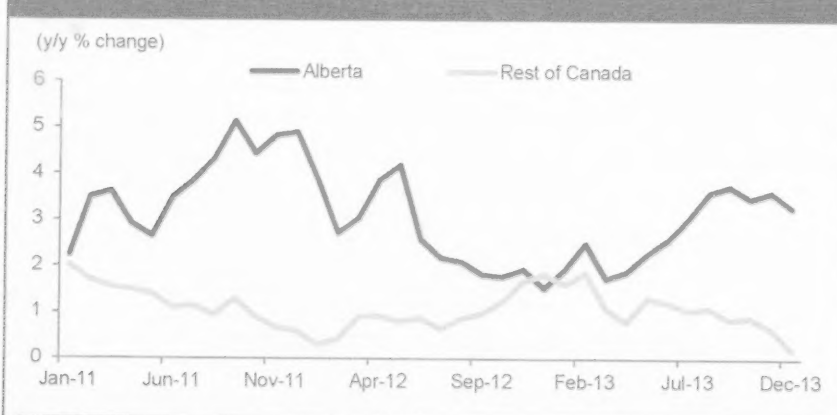
Tightness in resale housing market eases

After peaking in October, the sales-to-new listing ratio, a measure of market tightness, has receded to 0.65 as of December 2013, but still remains outside the balanced market band of 0.4 to 0.6. This has been largely a result of fewer sales, particularly in Calgary. Alberta sales peaked during the summer months, likely impacted by the June floods, and have subsequently fallen 13% versus a drop of 9% in new listings. In the new home market, conditions remain strong, with housing starts tracking well above prior year levels. In Calgary, there has been a large inventory drawdown, with the number of completed and unabsorbed units falling sharply since July.

Growth in auto sales moderates

Automobile sales have been very strong for much of the past couple years, propelling retail sales higher. The persistent growth in auto sales began to wane somewhat in November, with automotive dealers

Figure 1. Employment Growth



Source: Statistics Canada

posting 5.1% year-over-year growth. This was the first month in which overall retail sales (+6.8% y/y) increased at a faster clip than automotive dealer sales.

Alberta Business Sector

Natural gas lifts drilling activity

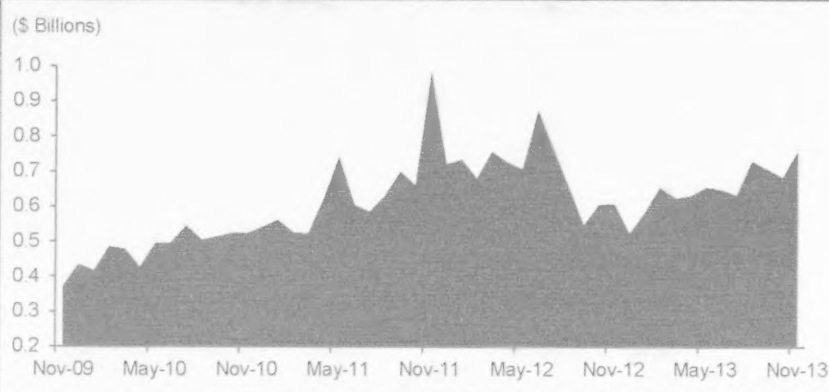
Drilling activity, as measured by growth in meters drilled, has picked up markedly since August in Alberta. The improvement has mainly come from natural gas, where meters drilled have risen 15.2% year-to-date through November. While gas drilling is still low from a historic perspective, the industry continues to tap more complex, horizontal wells. The number of gas meters drilled per well rose by 12% during the first 11 months of 2013.

Exports continue to rally

Exports posted double digit year-over-year growth for the third straight month in November. Recent strength has been fueled by energy products, which were up by an average of 19% year-over-year in October and November on higher energy production and prices.

Likewise, manufacturing shipments continued to trend above 2012 levels in November, led by gains in refined petroleum products. Shipments of machinery have also increased in recent months (Figure 2), with double digit year-over-year growth over the last four months of data ending in November. This is a notable shift from

Figure 2. Alberta Machinery Shipments



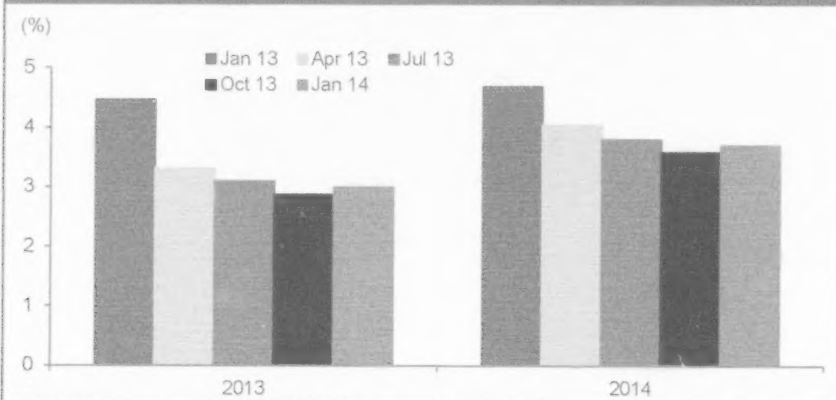
Sources: Statistics Canada

the negative growth seen earlier this year, which coincided with a leveling off of energy investment in the US, where much of Alberta's machinery is sent. Following a substantial run-up starting in late 2011, wood product sales have begun to taper, but still remains near its record high.

Building on up

Construction activity in Alberta continues to trend higher, with year-over-year growth in real non-residential construction accelerating to 8.0% in the fourth quarter of 2013. Double digit growth in building permits in two of the last three months of data point to further construction gains in the province.

Figure 3. IMF Global Growth Forecast by Forecast Date



Sources: IMF World Economic Outlook

Global Economy

IMF more optimistic about global growth

For the first time in almost two years the IMF has upgraded its forecast for global output growth, albeit by just 0.1 percentage points in 2014. Global growth is expected to rise from an estimated 3.0% in 2013 to 3.7% in 2014 and 3.9% in 2015. The acceleration in growth is attributable to strengthening in advanced economies. Canadian real GDP growth is expected to pick-up to 2.2% in 2014 then to 2.4% in 2015. While global growth gained momentum in the second half of 2013, the IMF emphasizes that the global recovery is still fragile and downside risks remain.

Low inflation concerns the Bank of Canada

Inflation in Canada has been below the Bank of Canada's 2% target for over a year and a half. During that time the Bank has repeatedly lowered its inflation forecast. Low inflation is attributed to persistent slack in the Canadian economy and increased competitiveness in the retail sector. In its most recent policy announcement, the Bank indicated that if weak price growth continued it could potentially cut interest rates. This caused bond yields to fall and the Canadian dollar to lose almost a cent against the US dollar on the day of the announcement. The dollar now sits at around 90 US cents per Canadian dollar.

2013 Year in Review

The Alberta economy continued its stellar performance in 2013, recording strong growth across a number of business and household indicators. The province reached a major milestone in 2013, surpassing the four million population mark and attracting a record number of migrants.

The June flooding in southern Alberta was perhaps the most significant event of 2013. The flood resulted in extensive damage to personal and public property as well as temporary supply disruptions. However, in terms of economic activity, reconstruction efforts are estimated to have boosted GDP and employment growth in 2013. In the energy sector, oil producers continued to face limited market access due to constraints in the pipeline network, causing large price differentials to persist and leading to a

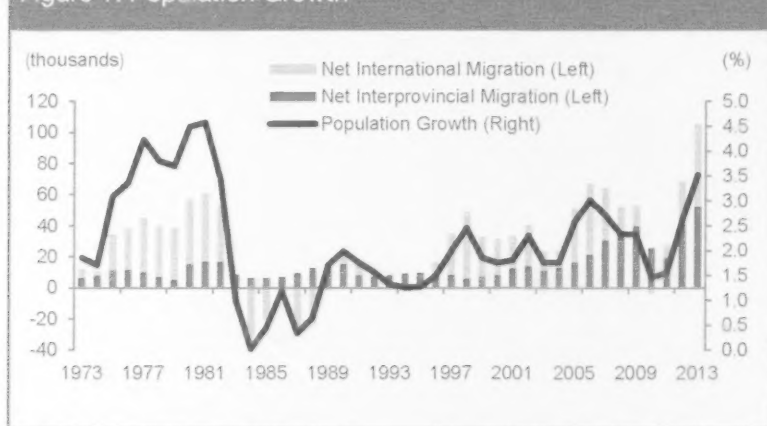
jump in crude volumes transported by rail. In the global economy, conditions gradually improved through the year, but growth remained sluggish, held back by a slowdown in emerging markets, stagnation in Europe, and fiscal drag and uncertainty in the US.

Household Sector

Population hits 4 million

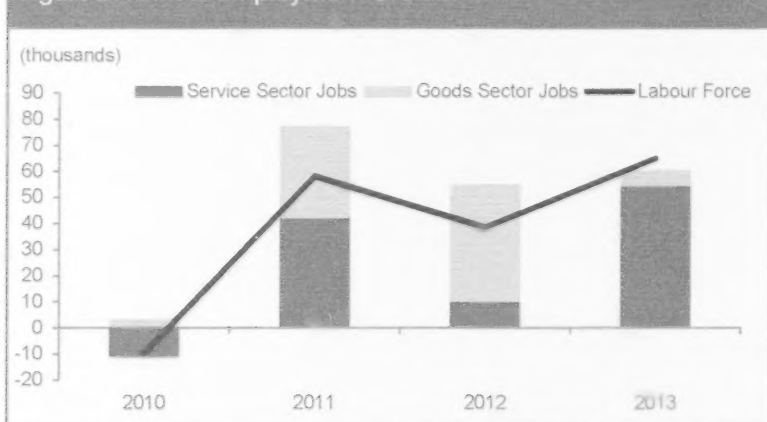
Alberta's population surged past four million in 2013, growing by the highest rate (3.5%) since 1981 (Figure 1). The main driver of Alberta's record net migration last year was a growing labour market. In December, there were 71,900 more people employed in Alberta than the same month in 2012, representing more than two-thirds of all jobs created in Canada over this period. Strong employment growth was met by new migrants entering the labour force. As a result, 2013's unemployment rate was unchanged from 2012 at 4.6%. While the goods sector led employment growth for the previous three years, the service sector took the baton in 2013, led by gains in professional, scientific and technical services (Figure 2).

Figure 1. Population Growth



Source: Statistics Canada. Based on census years (July 1 to July 1).

Figure 2. Annual Employment Growth



Source: Statistics Canada

Albertans keep shopping

Household demand remained strong in 2013, lifted by robust in-migration and job creation. Retailers in Alberta saw sales growth of 6.6% through 11 months of data, roughly in line with gains in the previous two years. For the third consecutive year, robust growth was observed in sales at auto dealers, up 14.4% over the same period. Part of the increase likely reflected the need to replace flood damaged vehicles.

Housing moves against the grain

Population growth helped stoke demand for housing. Alberta housing starts rose 8% to just over 36,000 in 2013, compared with a 12.5% national decline. Edmonton starts outpaced Calgary's in 2013 for only the third time in the past 20 years, reflecting large

gains in Edmonton's starts during the first half of 2013.

Home prices accelerated in 2013, bucking the national slowdown in price growth. The new housing price index ticked up by an estimated 2.8%, up from 1.3% in 2012 fuelled by a 5.3% increase in Calgary. Growth in average resale prices picked up to 5.0% in 2013, also led by Calgary.

Earnings outpace inflation

Average weekly wages climbed at an estimated rate of just over 3% in 2013, with a noteworthy increase of about 7% in the construction industry. The rise in earnings more than offset increases in the cost of living, as measured by changes in the consumer price index (CPI). Inflation was modest for the second straight year at 1.4% in 2013, less than half the increase in average earnings.

Business Sector

Output strengthens through 2013

Following a slow start to 2013, growth in Alberta's exports picked up in the second half of the year (Figure 3). Maintenance outages at refineries and oil sands facilities, along with the heavy rainfall in the spring weighed on production and temporarily disrupted pipelines. In the second half of 2013, oil production and exports jumped, which also coincided with higher prices for oil produced in Alberta. Manufactured product sales also reversed a weak

start in 2013, with growth picking up in the second half. In the agriculture sector, farmers witnessed a bumper crop in 2013, as favourable weather conditions pushed wheat and canola production to record heights

Drilling activity continues to evolve while more oil moves by rail

Although the number of active drilling rigs decreased gradually throughout the year, the number of meters drilled per well continued to increase, as horizontal drilling operations continue to dominate drilling activity. Moving crude products by rail took off in 2013 amid ongoing constraints in the pipeline network. The tonnage of fuel oils and crude petroleum transported by rail from Western Canada jumped 75% between January and November over the same period in 2012. With new onloading facilities being developed, further increases in crude shipments by rail is expected to continue.

Construction activity expands

Alberta's fast growing economy and population, along with flood recovery efforts, supported growth in the construction sector in 2013. Non-residential building construction spending rose 3.4%, with gains in industrial and institutional/government spending compensating for roughly flat commercial investment. Despite strong activity, non-residential construction cost inflation was below historic norms in both Calgary and Edmonton.

Global Economy

A year of fiscal turmoil in the US

The US faced a number of fiscal shocks in 2013. Several taxes were increased in January, substantial spending cuts occurred in March, and the government was shut down for three weeks in October until Congress reached a temporary budget deal to fund the government for three months. The year ended on a positive note, with Congress able to compromise on an agreement that will fund the US government until March 2015.

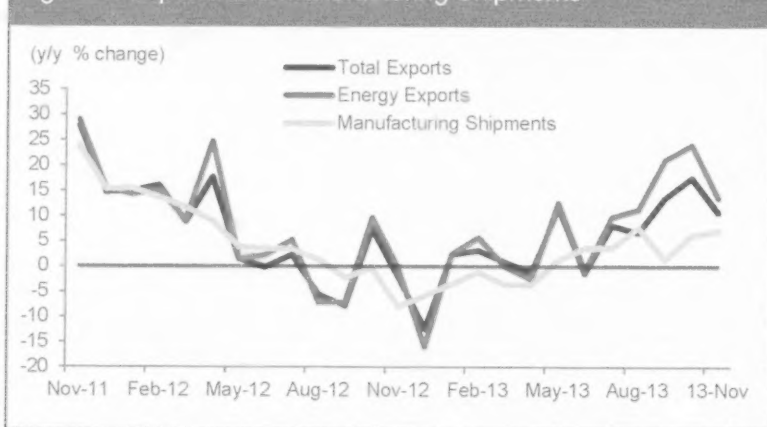
New challenges for the Federal Reserve

Even with the drag from higher taxes and lower public spending, the US economy strengthened as the year progressed. This is partly due to efforts by the Federal Reserve to stimulate growth with monthly bond purchases and a commitment to maintain low interest rates as long as unemployment is elevated and inflation contained. The challenge now is unwinding these programs without causing adverse effects, as in June when a proposal to taper bond purchases caused turmoil in financial markets.

Canadian growth sluggish; dollar falls

The Canadian economy is estimated to have grown by less than 2% for the second straight year in 2013. The relatively weaker performance of the Canadian economy versus the US economy, which finished the year strong, is one of several factors that caused the Canadian dollar to fall seven cents against the US dollar over the course of 2013. Monetary policy has also contributed to the depreciation as the Federal Reserve has tapered its bond buying program, while the Bank of Canada has softened its stance on future rate increases. Investors sought out Canadian assets as a safe haven during the financial crisis, which provided support to the loonie. With the global economy improving, investors are becoming more tolerant of risk, which has also contributed to recent declines in the Canadian dollar.

Figure 3. Exports and Manufacturing Shipments



Source: Statistics Canada

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